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Date: 4/8/2011
GAIN Report Number: EC11004

Ecuador

Sugar Annual

2011 2012 Ecuador Sugar: Production, Consumption, Trade, Policy Forecast

Approved By:
Emiko Purdy

Prepared By:
Henry Vega

Report Highlights:
Ecuador's sugar production will decrease in MY2011/12 by 4.9 percent to 466,000 MT raw sugar value (RSV). This is due mainly to unfavorable weather conditions in the coastal region of Ecuador at the beginning of the planting season. Ecuador will increase its current import and export levels of refined sugars in MY2011/12 in order to offset marked seasonal surpluses and shortages. Ecuadorian producers expect that exports of raw sugar to the United States will increase.

Executive Summary:

Production of cane sugar (centrifugal) for Marketing Year (MY) 2011/12 (June 2011/May 2012) will decrease by approximately 4.9 percent due mainly to unfavorable weather conditions in the main production areas. Production for MY 2011/12 is forecast at 466,000 MT raw sugar value. Consumption of sugar in Ecuador remains stable on a per capita basis (between 33 and 35.3 kg of refined sugar).

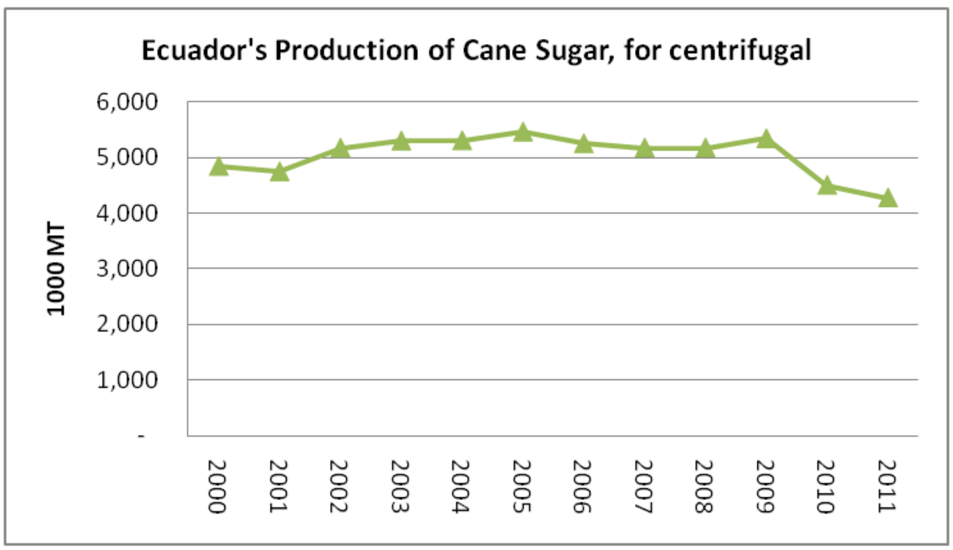
Total official exports increased from 12,282 MT RSV in MY 2008/09 to 19,000 MT RSV in MY 2009/10. The increase was due to an increase in the U.S. sugar quota. In MY 2010/11, Ecuador has increased its imports of refined sugar to 33,000 MT RSV. Ecuador is self-sufficient in the production of refined sugar for domestic consumption. Sugar mills produce raw sugar only as necessary to fill the U.S. Sugar TRQ, and it is usually the first sugar that is commercialized after the harvest starts in June or July. After that, mills produce refined sugar for local consumption. Ecuador will increase its current import and export levels of refined sugars in MY2011/12 in order to offset marked seasonal surpluses and shortages. Ecuadorian producers expect that exports of raw sugar to the United States will increase.

Commodities:

Sugar Cane for Centrifugal
Sugar, Centrifugal

Production:
Sugar production in Ecuador decreased by about 4.7 percent from MY 2009/10 (514,000 MT) to MY 2010/11 (490,000 MT). The reason for this decrease in production was the result of bad weather conditions that favored lower yields.

In MY 2010/11, sugarcane was planted on 70,000 ha. In addition, about 15,000 ha have been planted by very small producers with the purpose of producing alcohol, molasses and *panela* (solid blocks obtained from the boiling and evaporation of sugarcane juice) production. The exact amount of sugarcane crops destined for alcohol is hard to estimate. Post estimates that the area planted for these purposes, however, is decreasing due to other more lucrative alternatives and varying weather patterns that make producing sugarcane more costly.



It is expected that the harvested area specifically destined for sugarcane by mills and their integrated growers will increase by 3,000 ha to 73,000 ha in MY2011/12.

Two factors are expected to impact production of raw sugar in MY 2011/12: on the one hand, slight increases in area planted (3,000 ha); on the other, unfavorable weather conditions at the beginning of the planting season will likely result in loss yields. The expected net outcome is decrease in sugar production of around 4.9 percent resulting in an estimated production of 466,000 MT. In the past, depending on international prices for sugar-based alcohols and the shape that Ecuadorian policies take regarding biofuels, Post had foreseen a shift in sugarcane-area planted for the purpose of sugar consumption to alcohols. However, in lieu of high world sugar prices, such shift is currently on hold.

Approximately 90 percent of sugar cane production takes place in the coastal region of Ecuador, in the provinces of Guayas and Cañar. These areas experience annual rainfalls of approximately 1000-1100 inches, of which 800 inches have been usually spread between the months of January through May. These lands are traditionally perceived as low-cost production zones due to low-cost labor. However, this is changing as a consequence of annual government-mandated increases to the minimum wage and higher fertilizer prices. In addition, irregular weather patterns in the form of less predictable and more irregular rainfalls (short periods of intense rains followed by temporary droughts during the rainy season) have started to affect productions areas.

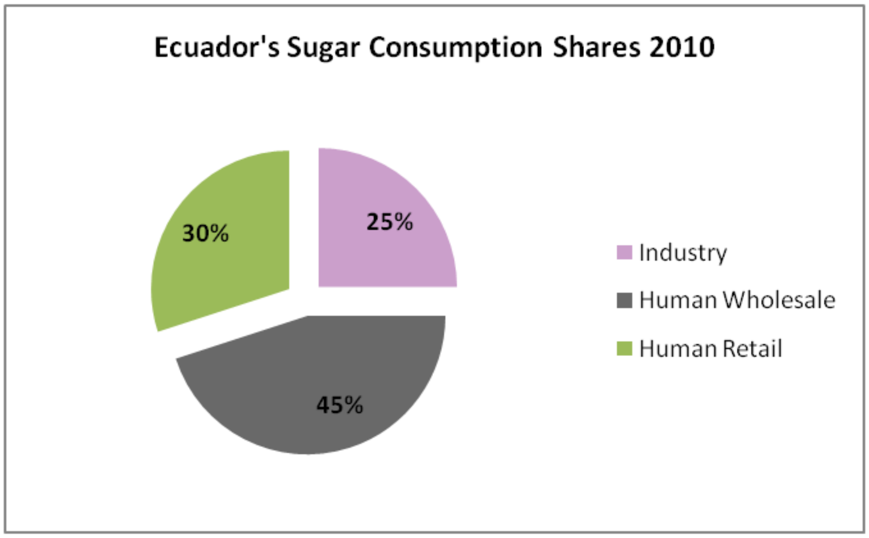
Beginning in December 2009, prices at mills increased at a high percentage. According to industry, this price adjustment has been necessary to compensate several years of low prices, and to make up for increased production costs ($35 per 50 kilo bag in January, 2011) in the last four years, and labor costs, including wage increases and mandatory social security payments to farm workers. Around 20,000 workers are employed by Ecuador's three major sugar mills during the harvest season. In 2010, sugarcane prices increased 23.75 percent from $20 per metric ton the previous year to $24.75 in June. From 2009 to 2011, for example, the monthly wage of a farm worker increased from $218 to $ 264.00, an increase of 21 percent. The price at the mill increased from $26.50 per bag in 2008 to an average of $33 in 2010. After the December 2010 increase, the price of a bag was $36 in January 2011. The wholesale price of a 50-kilo bag increased significantly from an average of $29.50 in 2009 to $39.50 in 2010, accounting for a 33.9 percent increase over that one-year period. The national average retail price of a kilogram of sugar was $0.91 in 2010.

Consumption:

Approximately 75 percent of Ecuador's sugar consumption is for human use in the form of white, brown or specialty sugars, while the remaining 25 percent is for industrial utilization. Per capita consumption of cane sugar, including sugar for industrial purposes, has ranged between 33 and 35.3 kg of refined sugar. One of the difficulties encountered when estimating Ecuadorian consumption is that approximately 4 to 7 percent of the consumption is in the form of *panela*. *Panela* is in general produced in an artisanal fashion and statistics on the quantity of *panela* production are not available. Sugar consumption is affected mainly by price rather than a change in sweetener preferences. Post's estimations of consumption in the past were based on U.S. Census Bureau estimates of Ecuador's population. A recent national census in Ecuador has revealed that Ecuador's population is smaller. Therefore this report adjusts Ecuador's consumption accordingly. Assuming an Ecuadorian population of 14,450 million at the end 2011 and similar consumption levels to that of MY2010/11, Post estimates that domestic consumption will be about 500,000 MT in MY 2011/12.

Until five years ago, there was a trend towards supplying high-quality very fine sugars to producers of high-quality confectionary products. Ecuadorian sugar mills, aware of this market niche for specialty sugars, began producing these products for the local industry. These efforts proved very costly and therefore firms requiring these highly refined sugars are currently importing it from Colombia. The soft drink industry also requires a better than regular-quality sugar for the production of carbonated drinks, juices and other sweet drinks. Sugar mills have been able to satisfy the demand of the soft drink industry by providing a whiter type of sugar, of similar quality to that widely available in the market, but simply whiter due to an additional bleaching process.

Modernization of the retail sector has continued to follow changes in consumer preferences regarding space limitations in Ecuadorian homes due to household incomes combined with a decrease in average family size. This has shifted demand towards smaller and lighter packaging practices. Nevertheless, small retailers make up about 60 percent of sugar sales in smaller bags of 1, 2, 5 or 10 kilos. The remaining 40 percent of sugar for direct human consumption is marketed through wholesalers in 50-Kg bags. Sugar mills have increasingly undertaken a differentiation approach among themselves by packaging and marketing its product differently in order to achieve higher market shares.



Trade:

Ecuador is self-sufficient in the production of refined sugar for domestic consumption. Surpluses during the harvest season are sent to the United States and neighboring countries. Total sugar exports for MY 2010/11 have reached 19,000 MT RSV. For MY 2011/12, Ecuador's exports are forecast at 30,000 MT RSV. Ecuadorian exports are mainly of raw sugar to the United States, however, depending on international prices and the price of sugar in Colombia and Peru, refined sugar is sent to these two neighboring countries. On occasion, these export flows are smuggled across borders and not included in official trade statistics. Post estimates that Ecuador sent about 25,000 MT RSV to Colombia in 2010. However, the statistics shown in the table below do not take into account smuggled exports and therefore a negative trade balance is shown. No exports to Peru have been reported. In the last few years, sudden changes to the strength of Ecuador's bilateral diplomatic relations with its two neighboring countries affected trade forecasts.

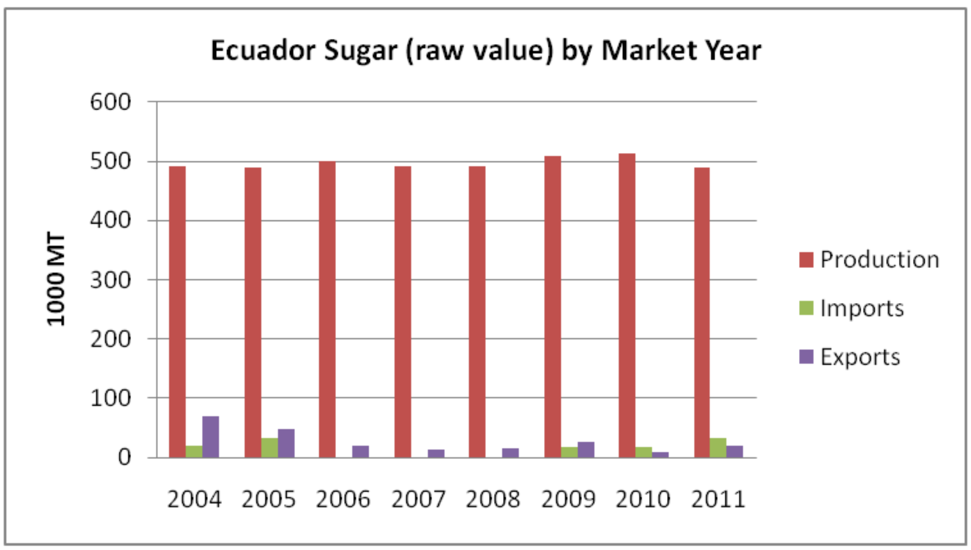
OFFICIAL EXPORTS AND IMPORTS OF SUGAR CALENDAR YEAR

	2009	2010
Exports Total	**8,130.15**	**19,400.04**
Estados Unidos	7,117.28	18,582.54
España	256.23	217.81
Italia	355.57	371.6749
Other	401.07	228.012
Imports Total	**11,156.97**	**44,081.19**
Peru	4,299.40	3542.235

Colombia	6,816.25	16712.7613
Guatemala	21.4	10729.4357
Other	19.9201	13096.7558
BALANCE (TE-TI)	**-3,026.82**	**-24,681.15**

During the harvest season, Ecuadorian mills export surpluses in similar amounts to those imported, mainly to the Unites States market. Exports to the United States are limited to the levels allowed under the U.S. sugar TRQ. Ecuador usually imports between 10,000 MT and 12,000 MT per year during the months when sugar is scarce (last quarter of each calendar year until the first two weeks of April the following year). In MY 2010/11 Ecuador has imported unusually high amounts of sugar in order to make up for an increase in the U.S. quota for Ecuador during FY 2010. Sugar imports to tackle shortages face zero tariffs.

In Calendar Year CY 2010, Ecuador increased its imports of white sugar by 295 percent, from 11,157 MT RSV in CY2009 to 44,081 MT RSV in CY2010. Thirty eight percent of CY2010 imports originated in Colombia.



In addition, in 2010, the Government of Ecuador continued to allow reduced imports of refined sugars, mainly for a single confectionary factory that exports the end product. Before 2006, imports of this type of sugar were only marginal. Until then, mills tried to supply the confectionary industry these refined sugars but the market size did not justify high investments needed for this purpose. Until 2005, Ecuador also imported significant quantities of refined white sugar Incumsa 45 for the beverage industry. However, starting in 2006 Ecuadorian mills started supplying this industry with an acceptable substitute for Incumsa 45, a whiter type of refined sugar.

Policy:

Sugar is considered by the Government of Ecuador to be a staple. It is used in the basic basket of goods to calculate inflation indexes. Because of its social significance, sugar prices used to be stable —to the benefit of low-income consumers. In the past four years, however, Ecuadorian's higher income levels have matched higher production costs and producers' pledges to increase the price of domestic sugar. The Government of Ecuador initially agreed to higher prices in exchange for producers' participation in a food subsidy program to impoverished populations called "Solidarity Partner." A private sugar mills and a government owned one still participate in the program which makes lower price sugar available to low-income people.

In general, there is no evidence that an official government-set price is observed for differentiated products such as those associated with a specific brand or caloric content. Sugar farmers and millers receive neither a domestic nor an export subsidy. As with producers of other crops, sugarcane growers can obtain loans from Ecuador's Agricultural Development Bank at preferential interest rates.

The Government of Ecuador allows duty-free imports from fellow Community of Andean Nations (CAN) countries. Imports originating in countries other than CAN are assessed a 15 percent base tariff, and a variable "price band" levy. The variable levy for white sugar (17019900) is currently assessed at -15 percent and the current final tariff for sugar, raw and white, is 0 percent. Sugar imports have a WTO-approved bound tariff of 45 percent, which includes any price band-related duties. Because of the U.S. TRQ, sugar mills have an agreement with the Government of Ecuador to continue to supply sugar to the U.S. market in order to not jeopardize Ecuador's quota allocation. Sugar mills and the Government of Ecuador, to some extent, see the U.S. market as a potential destination for Ecuadorian surpluses. Sugar mills produce raw sugar only as necessary to fill the U.S. Sugar TRQ. Raw sugar exports are shipped between June and September.

Although sugar was a part of MERCOSUR negotiations, Ecuador excluded raw and white sugar from the 15-year tariff liberalization process that started in April 2005. There is a special clause by which sugar can start a 15-year liberalization process only if and when Ecuador agrees to do so with each MERCOSUR partner. Even after tariff liberalization, sugar imports would continue to be charged the variable levy under the price band system. To date, Ecuador and its MERCOSUR partners have not initiated negotiations on sugar.

As an alternative to fuels produced from crude oil, a government-owned sugarcane mill and the Ministry of Agriculture are currently executing a 1500 ha pilot project to produce ethanol from sugarcane. Approximately 20,000 liters of ethanol per day is currently being produced. A blend of 5 percent ethanol and 95 percent gasoline is distributed for automotive use at 24 government-owned gas stations in Ecuador's largest city, Guayaquil. If the pilot project proves successful, the Government of Ecuador will encourage the planting of additional hectares of sugarcane. Results of the pilot project are expected to be released soon.

Prices Sugar

Country Ecuador

Month	Wholesale Prices $ per kg	Retail Prices $ per kg

	2008	2009	2010	2008	2009	2010
Jan	0.55	0.58	0.72	0.67	0.70	0.80
Feb	0.55	0.58	0.73	0.67	0.70	0.81
Mar	0.56	0.58	0.74	0.67	0.70	0.84
Apri	0.56	0.59	0.80	0.67	0.70	0.94
May	0.56	0.59	0.80	0.67	0.71	0.93
Jun	0.56	0.59	0.74	0.67	0.70	0.80
Jul	0.59	0.59	0.82	0.70	0.70	0.95
Aug	0.60	0.59	0.83	0.72	0.70	0.97
Sep	0.59	0.58	0.84	0.71	0.70	0.98
Oct	0.58	0.58	0.83	0.72	0.71	0.97
Nov	0.58	0.59	0.83	0.71	0.71	0.96
Dec	0.58	0.60	0.84	0.72	0.74	0.97
Average	0.57	0.59	0.79	0.69	0.71	0.91

Production, Supply and Demand Data Statistics:

PSD TABLE

ECUADOR

SUGAR CANE, FOR CENTRIFUGAL

Sugar Cane for Centrifugal Ecuador	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jun 2009		Market Year Begin: Jun 2010		Market Year Begin: Jun 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	75	75		75		76
Area Harvested	60	60		60		61
Production	4,500	4,500		4,275		4,575
Total Supply	4,500	4,500		4,275		4,575
Utilization for Sugar	4,500	4,500		4,275		4,575
Utilizatn for Alcohol	0	0		0		0
Total Utilization	4,500	4,500		4,275		4,575
1000 HA, 1000 MT						

PSD TABLE

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SUGAR CANE, CENTRIFUGAL

Sugar, Centrifugal Ecuador	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jun 2009		Market Year Begin: Jun 2010		Market Year Begin: Jun 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	117	117	131	151		158

Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	548	514	562	490		466
Total Sugar Production	548	514	562	490		466
Raw Imports	2	1	2	0		2
Refined Imp.(Raw Val)	7	17	12	33		30
Total Imports	9	18	14	33		32
Total Supply	674	649	707	674		656
Raw Exports	14	7	12	12		22
Refined Exp.(Raw Val)	3	1	7	7		8
Total Exports	17	8	19	19		30
Human Dom. Consumption	526	490	559	497		500
Other Disappearance	0	0	0	0		0
Total Use	526	490	559	497		500
Ending Stocks	131	151	129	158		126
Total Distribution	674	649	707	674		656
1000 MT						